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Weekly Summary

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No. 0003/75
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CONTENTS (January 17, 1975)



The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

1 Soviet Union: Far East Relations

EAST ASIA
PACIFIC

- 4 South Vietnam: Military; Economic
- 7 Laos: Troubles in Thakhek
- 8 Cambodia: Focus on the Mekong
- 9 Taiwan: Slumping Economy
- 9 China: Congress; Grain

25X1

EUROPE

- 11 USSR: Trade Bill; Transport; Soyuz
- 13 Cyprus: Political Talks Begin
- 14 Greece-Turkey: Aegean Dispute Revived
- 15 Denmark: Election Outcome
- 16 Spain: Military and Labor Problems

25X6

MIDDLE EAST
AFRICA

- 18 Angola: Agreement Announced
- 19 Iran - Arab States: Getting Closer
- 20 Egypt-USSR: Uneven Course
- 21 Ethiopia: Imperiled Truce

WESTERN
HEMISPHERE

- 22 Latin America: Relations With US
- 22 Cuba: Detente, Havana Style
- 23 Chile: Easing Up
- 24 Argentina: Lull in Terrorism
- 25 Guatemala: Avenging an Execution

25X1



SOVIET UNION: FAR EAST RELATIONS

NO THAW WITH PEKING

Sino-Soviet relations continue to be stalemated on all substantive issues, although the polemics of last year on the border issue have died down.

Direct contacts between the two countries remain at a bare minimum. Soviet Deputy Foreign Minister Ilichev, who is Moscow's chief negotiator at the border talks held intermittently in Peking since 1969, came home in August. He has since been involved in a number of other duties, and there is no indication that he will soon take up the negotiations again. Soviet Ambassador Tolstikov recently returned to Peking, but appears to be transacting little if any business. The annual conference of the Sino-Soviet Border River Navigation Joint Commission, which will meet in Peking early this year, will probably be marked by mutual recriminations, if past meetings are any guide.

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Sino-Soviet trade has leveled off, running at about a quarter billion dollars per annum for the past three years.

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China has shown no desire to increase trade beyond this figure. There have been no recent changes in the size or the status of the military forces facing each other across the Sino-Soviet border.

The fate of the three Soviet helicopter crew members apprehended inside China last March remains uncertain. The last known Soviet diplomatic approach to Peking on this issue took place in mid-October; Peking evidently failed to respond to the demarche. Moscow has also attempted unsuccessfully to arrange contact with the crew members through the Red Cross. Peking still has given no firm indication of how it intends to deal with the prisoners, but diplomatic speculation continues to center on an eventual trial.

A major area of contention that is likely to come to the fore over the next year is the role of the Soviet and Chinese parties in the international Communist movement. Soviet statements

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concerning the conference of European Communist parties, due to be held later this year, suggest that Moscow looks to this conference and to the hoped-for subsequent world conference as forums at which certain Chinese policies, if not China directly, can be attacked. Moscow recognizes that it will not be able to obtain a formal condemnation of China or its policies at either conference, but it hopes to get endorsements of Soviet foreign policy initiatives such as SALT and CSCE and thereby isolate Peking from the mainstream of the Communist movement.

Peking is warning other Communist states of the dangers to their independence should Moscow be successful in isolating China. Mindful of Soviet efforts to convene a conference, the Chinese some time ago began to make an effort to improve their relations with Romania and Yugoslavia and to encourage them to maintain their independent policies.

By all appearances, both sides foresee little chance for a significant change in relations. Prospects for improvement at this time are particularly dim because Mao is determined to perpetuate anti-Soviet policies in China, and hostility toward the USSR has become an important element in China's leadership struggle. Border clashes could again occur, but it is more likely that Moscow and Peking will seek to keep their relations somewhat below the boiling point as they maneuver for political advantage.

COOL TOWARD JAPAN

Foreign Minister Miyazawa's visit to Moscow from January 15-17 probably accomplished little. It seemed designed primarily to keep alive the dialogue on a World War II peace treaty. Tokyo feels constrained only to demonstrate that it is at least making an effort to achieve progress in relations with the USSR at the same time that

Gromyko welcomes Miyazawa



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relations with China are moving ahead. The Soviets, for their part, probably see some value in pursuing direct contacts with the new political leadership in Tokyo.

The Matter of a Peace Treaty

Tokyo's claim to the small islands north of Hokkaido, seized by the Soviets at the end of World War II, has persistently blocked progress on this and other bilateral political issues. The Soviets had been taking a wait-and-see attitude toward the new Miki government on the territorial issue, but what they have seen so far probably gives them no reason to expect any sort of breakthrough. Early this week, Prime Minister Miki ordered Miyazawa to "stand pat" on Japan's claim to the "northern territories." The Prime Minister's chief assistant, moreover, personally assured audiences in eastern Hokkaido of Miki's determination to seek the return of the islands. Press reports also indicate that Miki has asked for a record appropriation for propaganda activities aimed at bringing pressure on Moscow on the issue.

The Soviets, in an effort to counter Japanese arguments for a territorial settlement as a prerequisite to any peace treaty, have tried to draw a contrast with rumored Japanese plans for early conclusion of a peace-and-friendship treaty with Peking. Moscow has chided Tokyo for its apparent willingness to overlook such territorial problems as the conflicting Sino-Japanese claims to the Senkaku Islands—an area of potential oil wealth near the Ryukyus—in its treaty discussions with Peking.

From the Japanese point of view, there are several distinctions between the two issues. First, Tokyo actually controls the Senkakus and feels that it has a good legal case in any subsequent territorial negotiation with China. Second, and more important, the Senkaku problem is a component of the larger issue of the division of the Asian continental shelf for purposes of oil exploration.

Some anti-Peking elements in Japan's ruling party also see advantage in trying to link the two proposed peace treaties. They are trying to delay

a China treaty by claiming that if territorial issues are overlooked in those discussions, Japan could no longer insist on prior resolution of the territorial issue with Moscow. To counter such tactics—at home and in Moscow—the Miki government will soon begin emphasizing the "friendship" aspect of the proposed China treaty, playing down the idea that it represents any attempt to resolve specific issues.

Economic Issues a Better Bet?

In view of the probable political deadlock in Moscow, both sides no doubt spent most of the time discussing ways to keep economic relations on an even keel. From Tokyo's viewpoint, however, the cancellation of the 1972 Soviet-US trade agreement and the consequent lack of further US Export-Import Bank credits is a severe setback for the proposed Yakutsk natural gas project, in which Japanese participation has been contingent on such credits.

Although bilateral economic relations have grown steadily, the Soviets may well have overestimated the degree to which the Japanese need or want Siberian resources.

For its part, Tokyo may have overestimated the extent to which the Soviets, to encourage Japan to balance its relations with Moscow and Peking, would make concessions on the economic details of Siberian development.

In any case, looking at the hard economics of Soviet proposals, the Japanese have decided in some cases that the terms were unattractive and the rewards inadequate. Moreover, Tokyo has been reluctant to offend China—and, to some extent, the US—by meeting certain Soviet conditions. Finally, the Japanese have clearly been apprehensive over the possibility of becoming excessively dependent on Soviet energy resources.

Thus, although economic relations should continue to expand gradually, no ingredients seem to be present to produce any major breakthroughs. The Miyazawa visit may have provided confirmation of this somewhat pessimistic view of the course of Japanese-Soviet relations.

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SECRET**SOUTH VIETNAM****SOME LOSSES, SOME GAINS**

President Thieu is attempting to rally both domestic and international support for his government in the wake of increased Communist military pressure. Late last week, Thieu went on radio and television appealing for national unity and greater popular support following the loss of Phuoc Long Province. The President's most immediate concern, however, appears to be obtaining increased US aid.

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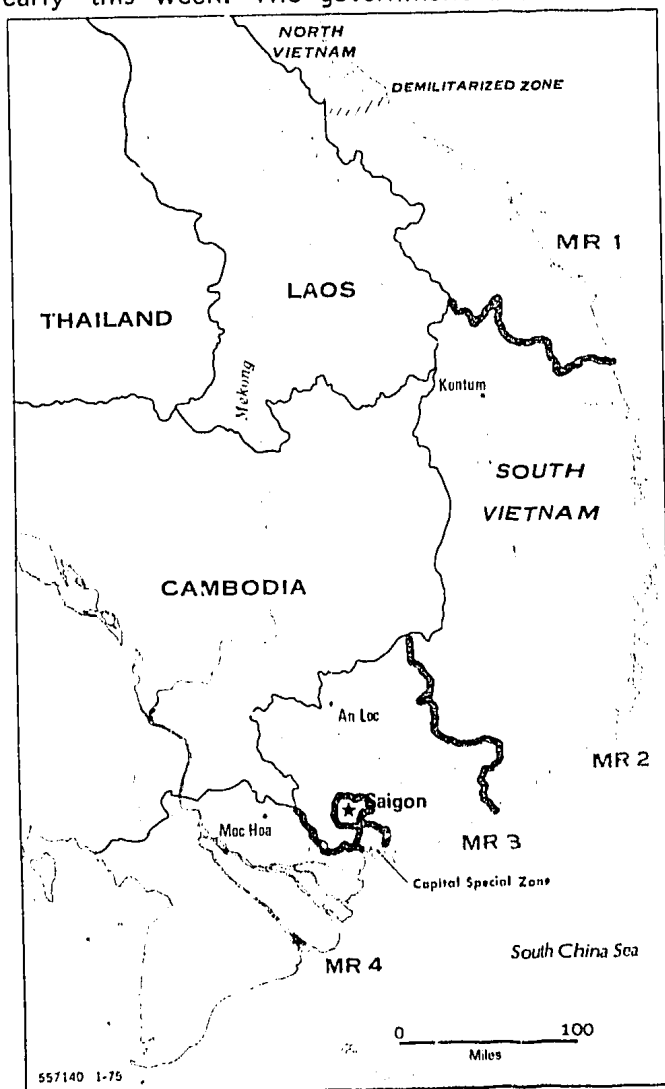
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Communist regiments involved in the action reportedly suffered a large number of casualties, primarily from air and artillery strikes. In coastal Binh Dinh Province, government operations have been increasingly successful in cutting Communist supply routes and neutralizing the activities of the North Vietnamese 3rd Division.

The South Vietnamese air force also inflicted heavy losses on a convoy of some 400 trucks in the triborder area of Military Region 2 early this week. The government believes the

During the past week, Communist military action increased in the delta provinces, and heavier fighting will develop if the Communists move against urban centers in the area. The shelling of the provincial capital of Moc Hoa near the Cambodian border last week with field artillery pieces—their first use in the delta—could presage a ground assault against the town. The shellings may be designed, however, only to tie down government forces while the Communists consolidate and expand their infiltration corridors deeper into the delta. There has also been a step-up in fighting in Tay Ninh Province northwest of Saigon, and sharp skirmishes have erupted in several of the northernmost provinces.

Despite the well-publicized reverses of recent weeks, there have also been notable government successes. Early this week, government forces broke a month-long siege of a district capital in Binh Tuy Province east of Saigon. The two

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convoy was bringing units of the North Vietnamese 968th Division from Laos into South Vietnam. The 968th has been in southern Laos for about two years and is not rated as one of Hanoi's better units. Its movement, nevertheless, appears in line with known Communist plans for a round of sharp attacks in the highlands later in the dry season.

LIVING WITH UNCERTAINTY

Serious economic problems—declining US aid, depressed business conditions, unemployment, and decreasing real incomes in urban areas—continue to plague South Vietnam, but these do not pose a specific danger to the Thieu administration over the coming year. Recent changes in South Vietnam's economic leadership, including the appointment of an economic czar, are unlikely to lead to much improvement. Notable gains have been made in agriculture, and recent Communist military actions do not seem to have had a significant effect in the countryside. Still, the country's economic future remains essentially dependent on foreign aid.

South Vietnam's total production today is essentially what it was in 1972, but in the meantime, its population has grown 5-6 percent. Soaring world prices have spurred both inflation and recession by pushing up import costs and reducing import volume. As a result, many private firms are working well below capacity, and some have gone out of business. Industrial production is some 30 percent below 1971 peaks, with the hardest hit industries including textiles, soft drinks, glass bottles, plastics, flour, detergents, and paper products.

Other economic difficulties include tight credit controls, which have prevented businessmen from obtaining loans to finance production and capital improvements and to hold unsold inventories. In addition, some 15-20 percent of the urban labor force of 3-4 million appears to be unemployed; many more are underemployed. Moreover, inflation has been unusually high for the last two years. Cost-of-living increases came to 65 percent in 1973 and 40 percent in 1974; real

incomes of most of the urban working class dropped, and demand for all but the basic necessities fell.

The large standing army also continues to strain the economy, with almost half of the recently enacted 1975 budget going for the military. Saigon optimistically estimates a budget deficit of about \$115 million, but it is likely to be considerably higher unless the economy improves markedly and the tax base is broadened.

Classic Remedies

In the past, the remedy for these problems has been a strong dose of foreign—largely US—aid. Foreign economic aid this year, will amount to about \$700 million, and South Vietnam's exports may add another \$100 million, but this is \$200-400 million less than needed to revive industrial production and guarantee adequate supplies to farmers for a good crop year. Nevertheless, the foreign aid should be enough to arrest further economic decline—at least temporarily—if the weather is as favorable for farmers as in 1974.

The obvious alternative to such heavy reliance on foreign support is to earn substantially more foreign exchange, but the outlook for this is not good. Exports grew from \$12 million in 1971 to \$60 million in 1973, but only to \$75-80 million in 1974. Saigon's monthly earnings abroad began to decline last May, largely because of the high cost of industrial raw materials, especially fuels, insecurity in the timber-producing areas, and a drop in foreign demand for fish and wood products.

Bright Spots

Agriculture, the mainstay of the economy, has had two good years in succession. The current rice crop should reach a record 7 million tons, and it does not appear that the recent increase in fighting will seriously affect the harvest. The need for US rice should be minimal this year. In fact, if weather permits and sufficient fertilizer can be imported, the South Vietnamese might be able to export some rice in the next few years. Sugar production, too, has increased substantially in

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Vietnamese market

recent years—though not to pre-war levels—and is replacing over \$50 million in sugar imports. Exports of sugar are still several years off.

Prices appear to have leveled off in the last several months. More than half of the 1974 price increases occurred in the first three months of the year, as high petroleum prices worked their way through the market place. Since August, the price index has risen at an annual rate of only 9 percent, despite expected seasonal increases that should have occurred toward the end of 1974. Rice prices rose 24 percent in 1974, compared with 82 percent the previous year.

Some progress has been made in reducing unemployment through government-sponsored programs in Saigon and Danang. These employ some 16,000 in each of the cities, and recruit-

ment is continuing. The programs are concentrating right now on labor-intensive projects such as garbage removal, building and street clean-up, and maintenance and repair of drainage ditches. Increasing emphasis, however, is being given to longer term projects such as construction of dikes and irrigation networks, land reclamation, and restoration of railways.

Foreign exchange reserves are about \$200 million, up from \$150 million at the start of 1974. Much of the increase, however, came from one-time payments from oil companies and from repatriation of foreign funds by cash-short businessmen. The reserves are equivalent to about three months' imports at the current rate, and provide some elbow room. Additional oil exploration earnings and the production of more goods to substitute for imports should make it easier for the government to cope with the drop in aid and the slowdown in exports.

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Economic Prospects

President Thieu is obviously concerned that the economy might be a convenient rallying point for political dissidents. He knows that the man-in-the-street can identify much more easily with high prices, unemployment, commodity shortages, and graft than with ideologies or even the conduct of the war outside his environs.

The most pressing need is for visible progress rather than any broad new programs. The extensive reforms of 1971 and 1972 provide a suitable framework for change. The exchange rate is flexible, interest rates and credit policies are easily regulated, and stiff tariffs and taxes already provide ample leverage over imports. Curbing unemployment may require an expansion of credit and more work programs, but the remaining basic problems—such as inadequate taxation of farmers and a need for a vast expansion of exports—cannot be seriously altered in the next few years.

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LAOS: TROUBLES AT THAKHEK

Civil unrest, apparently fanned by the Pathet Lao or their sympathizers, continues to flare up in some non-Communist controlled urban areas. The Royal Lao Army recently placed the provincial capital of Thakhek in central Laos under martial law following an outbreak of civil disorder there.

The disturbances in Thakhek began on January 6 when a small group of local workers and student activists staged a demonstration over economic and political grievances. The protest appears to have been masterminded by a local leftist who has been a leading instigator of labor unrest in Thakhek over the past several months.

Fearing a repetition of the events last month in the northwestern provincial capital of Ban

Houei Sai, which developed into a major embarrassment to the non-Communist establishment, Royal Lao Army forces moved with uncharacteristic swiftness in dealing with the Thakhek protesters. Troop reinforcements were dispatched to seal off the town, and the protesters were isolated in the government compounds they had seized.

Unlike the uprising at Ban Houei Sai, no dissident non-Communist forces or Pathet Lao troops have been involved. In the wake of a shooting incident along the approaches to Thakhek, however, public sympathy and support for the protesters has spread to other urban areas in the non-Communist zone as well as to the neutralized city of Vientiane. The Thakhek incident occurred when Royal Lao Army troops, apparently acting in self-defense, fired into a group of several hundred villagers attempting to march on the city in a show of support for the protesters. At least one villager was killed and ten others wounded.

The non-Communists insist that they are firmly in control at Thakhek, but prolonged occupation of the city by the Royal Lao Army—especially if aggravated by any further shooting incidents—could backfire politically. Moreover, there is a chance that local Pathet Lao troops in the Thakhek area might support the protesters—as they did at Ban Houei Sai—thus raising the possibility of a military confrontation.

Senior non-Communist political and military leaders are attempting to minimize the potential seriousness of the situation at Thakhek in an effort to prevent the Pathet Lao from capitalizing on it.

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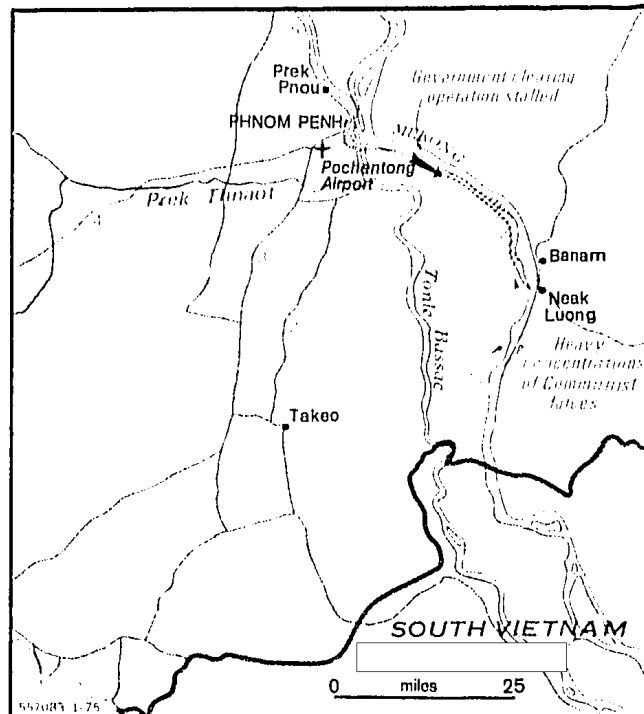
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CAMBODIA: FOCUS ON THE MEKONG

Heavy fighting along the Mekong River near the navy base at Neak Luong and continued Khmer Communist control of the riverbanks farther south forced the government at midweek to postpone a scheduled resupply convoy. Phnom Penh has a five-week supply of rice and enough fuel and ammunition to sustain military operations through the end of the month. Military stocks are being supplemented by increased air deliveries. Despite the tightening supply situation, sporadic rocket attacks, and continued skirmishes along Phnom Penh's outer defenses, the capital remains calm.

The situation at Neak Luong is tense, however. Communist ground units have kept heavy pressure on government positions on the west bank of the river opposite the navy base and on the nearby riverside town of Banam. The fighting in these areas has caused over 20,000 civilians to flee to Neak Luong, which has itself been shelled. Convoys from Phnom Penh were still getting



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through to Neak Luong but are encountering heavy fire en route. At week's end, a government force trying to push down Route 1 toward the base was bogged down in the face of stiff resistance.

A Princely Scandal

Prince Sihanouk's recent interview by Swedish newsmen in Peking, in which he alleged that several leading members of the Lon Nol government had in the past indicated a willingness to join him, has caused a stir in Phnom Penh. The Prince actually devoted more of the interview to his thoughts on resolving the conflict, and he may have been trying to signal some new flexibility when he said he could accept some Phnom Penh leaders in an "enlarged government." Local press accounts of the interview, however, focused on the alleged offers of defection. Government leaders took the interview as an attempt to sow dissension in the capital and closed down three newspapers that carried the story.



Patrolling the ruins

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TAIWAN: SLUMPING ECONOMY

Sagging US and Japanese demand for Taiwan's exports has led to a sharp economic downturn. Real growth last year fell below 4 percent, the lowest in over 20 years.

Many small- and medium-sized companies, facing mounting inventories and cash shortages, are struggling to avoid plant closings or bankruptcy. Many firms have cut production, laid off workers, and are paying partial salaries; some temporary plant shutdowns have occurred. Hardest hit have been the export-oriented industries such as textiles, electronics, plywood, and petrochemicals. Unemployment in these sectors now probably exceeds 12 percent. Iron and steel production has also slumped, with many workers on partial pay and nearly half of all plants reportedly shut down. Unemployment and production cuts are likely to increase in the months ahead.

Taipei is attempting to stimulate economic activity in order to hold down unemployment. The government is providing loans to financially pressed companies and is buying excess stocks to ease the cash squeeze. Few import restrictions have been imposed, but firms are being encouraged to "buy local." Major government projects may be accelerated to provide more jobs. Exporters have been given lower interest rates on loans as well as more favorable duty and fee treatment, but any upturn in exports will depend on renewed demand in the US and Japan, which together account for more than half of Taiwan's overseas sales. Meanwhile, a reduced growth in imports will probably hold down the trade deficit to less than the \$1.3 billion of last year.

Increased government spending on public projects is not likely to add much to inflation because of the slack in the economy. Inflation is already showing signs of easing—consumer prices rose less than 10 percent during the second half of 1974, compared with 25 percent in the first half, and wholesale prices began declining in the fourth quarter.

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CHINA

PEOPLE'S CONGRESS—AT LAST?

The convening of the National People's Congress appears imminent, if it is not already under way.

Suspected congress delegates from the communist suspected congress delegates from the communist communities in Hong Kong and Macao left for Peking within the past few days, and Hong Kong residents are being refused permission to travel to Peking. No National People's Congress has been held for the past decade, and conflict among leaders forced repeated abandonment of previous efforts to hold the meeting. The congress is expected to hear and approve reports on the economy, foreign policy, a new state constitution, and other issues.

A National People's Congress deals strictly with government—as opposed to party—affairs. Mao, who holds no government post, need not attend, although he has done so in the past. Mao has been absent from Peking for about six months. Premier Chou En-lai is in the hospital, but would probably attend, if not preside over, as much of the congress as his health permits.

The reports to the congress, when released, should spell out China's programs and policies, particularly in the domestic area, in greater detail than at any time since the onset of the Cultural Revolution. A number of important appointments may be announced, including a new defense minister, a post vacant for over three years.

Several aspects of this, the fourth congress, differ markedly from earlier ones. In the past, congresses were wide-open affairs, greeted with much fanfare and attended by foreign visitors. This one apparently is to be held in secrecy. The joint New Year's Day editorial in Peking's press made no mention of it, no banners bedeck Peking to welcome the delegates, and no foreigners apparently have been invited to attend.

All this suggests that convening the congress should not be taken as a sign that Peking's divided

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leadership has now composed its differences, although some progress in this direction has probably been made. The pattern of secrecy surrounding this National People's Congress closely parallels that of the Tenth Party Congress of mid-1973. That congress papered over leadership differences, which quickly resurfaced in the divisive anti-Confucius campaigns.

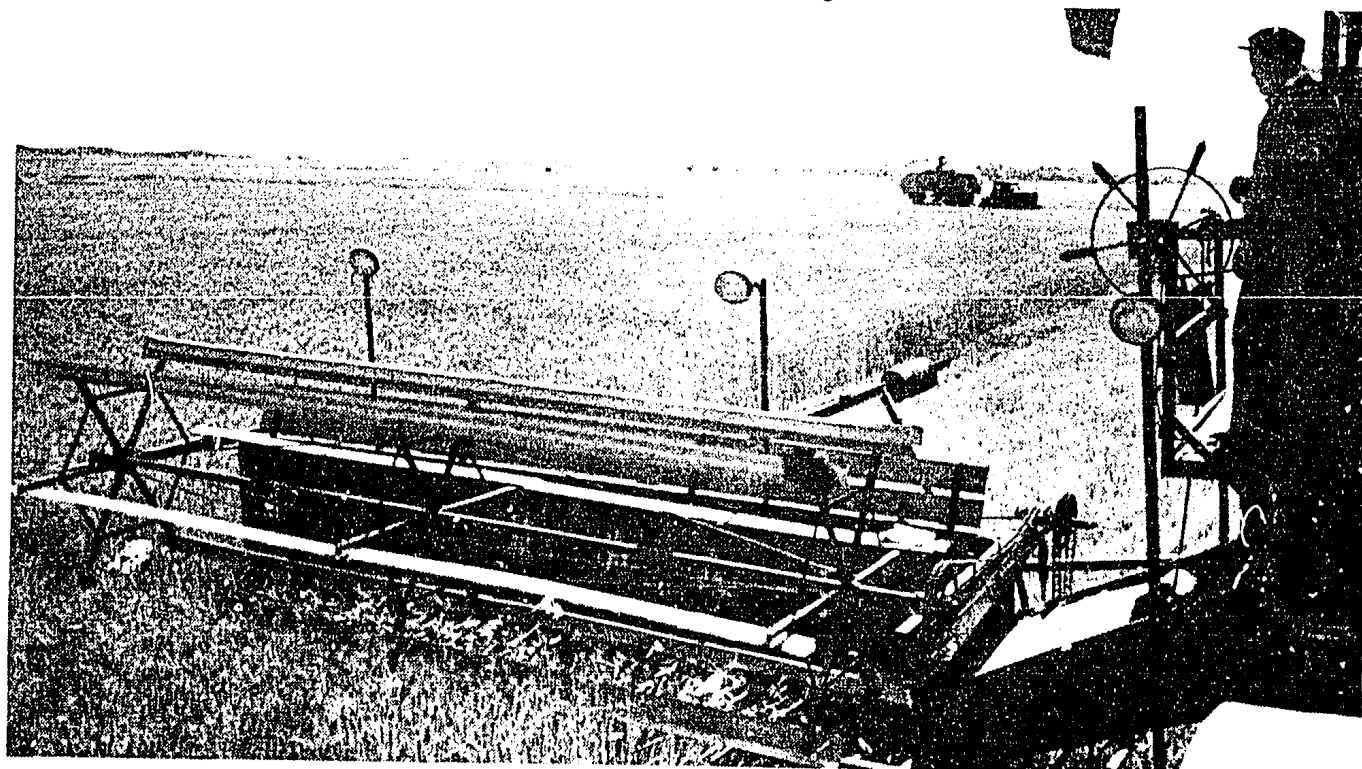
GRAIN IMPORTS RESUMED

China's grain harvest for 1974 was little if any higher than the almost 250 million tons harvested the year before, and foreign grain suppliers now are being urged to speed up shipments. Peking had asked its major suppliers to postpone delivery of almost 2 million tons of grain from the fourth quarter of 1974 to the second half of 1975. Because of the favorable prospects for the fall harvest at that time, Peking apparently believed these shipments could be delayed in order to ease its tight foreign-exchange position.

China has asked Canada to accelerate the delivery of 457,000 tons of wheat during the first quarter of 1975. Peking has opened letters of credit to cover an additional 290,000 tons of grain from Argentina and refused the request of a US trader to postpone the delivery of 100,000 tons of wheat from the first to the third quarter of 1975.

The winter wheat crop last year was hurt by drought during the growing season and by wind and rainfall at the time of harvest. As a result, output failed to measure up to past years, despite the record acreage planted. Early rice was set back by frost, but recovered in time to yield a good crop. The more important fall harvest, about two thirds of China's annual grain output, was unusually late. Early growing conditions were generally favorable, but then drought, heavy rain, and insects over extensive areas of south and central China and prolonged rainfall in north China damaged crops before they could be harvested.

China harvest—not enough



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USSR

SOVIETS REJECT TRADE AGREEMENT

The Soviets' unhappiness with provisions of the US trade bill has been known for some time, but the final decision to renounce the 1972 agreement may have been made only in the past few weeks. The limits placed on Export-Import Bank guarantees of credit available to the USSR, as well as emigration requirements, were a factor in the Soviet decision.

It was not until December 18, when Congress was about to vote on the trade reform legislation, that Moscow made public the letter Foreign Minister Gromyko had sent to Secretary Kissinger on October 26 denying any obligation to alter emigration policy. Two days before the publication of the Gromyko letter, the issue may have been considered at the Central Committee's plenary session. The Central Committee may have approved a tougher line, but it is more likely that the Soviets did not decide to take the final step until some time last week.

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Thus far, the Soviets seem to be playing down the broader implications for detente of their rejection of the US-Soviet agreement. Premier Kosygin, in the course of a banquet speech on January 14 honoring Australian Prime Minister Whitlam, made repeated references to the necessity of continuing detente and specifically reiter-

ated the Soviet goal of making detente "irreversible." The communique issued at the end of Whitlam's visit on Thursday also went out of its way to stress the importance of Soviet-American relations, "above all the agreements on prevention of nuclear war and strategic arms limitation."

In a Tass summary broadcast 12 hours after the Soviet announcement, Moscow informed its domestic audience of Secretary Kissinger's reaction. The Tass summary, carried in the central press on January 15 and 16, said the Secretary noted the Soviet government's message that it does not intend to accept a trade status that is discriminatory and subject to political conditions, and accordingly would not bring into force the 1972 trade agreement. The report concluded with the Secretary's assurance that the administration would continue to pursue all avenues, including legislation, to promote mutually beneficial trade relations.

The decision not to accept the conditions of the US trade and Export-Import Bank bills and the events that led up to it were a sharp setback to a major element of Brezhnev's detente policy and may ultimately affect his basic political position. He has also suffered a recent setback in his consumer program and an embarrassing postponement of his visit to Egypt.

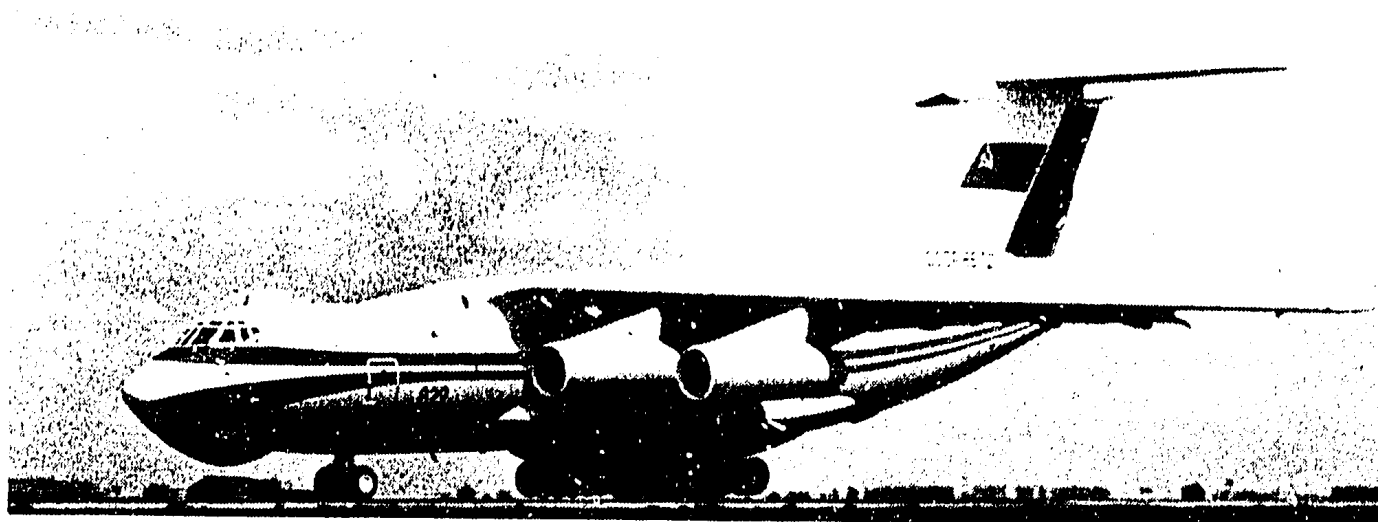
Party boss Brezhnev has been out of public sight since December 24, except when he attended his mother's funeral on January 8. President Podgorny and Premier Kosygin were the principal Soviet leaders to meet with Whitlam, who was in the USSR for four days this week. There is no evidence of a crisis atmosphere within the leadership nor are there visible signs of a concerted challenge to Brezhnev's position. He faces the problem, however, of keeping the combination of policy setbacks and poor health from leading to an erosion of his authority. To prevent this, he must resume an active work schedule and give new impetus to domestic and foreign policies. The pressures to take an active role will increase as politicking for the party congress next year picks up.



US and Soviet trade negotiators

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NEW TRANSPORT OPERATIONAL

The newest Soviet transport aircraft, the IL-76 Candid, now appears to be operational. Four Candid's were seen at an operational base of the Military Transport Aviation forces in September.

The IL-76 is a four-engine jet aircraft similar in appearance to the US C-141 Starlifter. It is a high-wing, short-takeoff-and-landing (STOL) aircraft with a high-flotation landing gear that allows operations from unimproved fields. The Candid has a maximum payload of about 88,000 pounds and a range of about 2,800 nautical miles. This is about twice the payload of the AN-12, but only about half that of the AN-22—the two current mainstays of Soviet military transport service.

Neither the AN-12 nor early models of the AN-22 have a pressurized cargo compartment—as does the IL-76—which severely limits their use as long-range troop transports at altitudes above 10,000 feet. The AN-22B, however, does have a pressurized compartment. The IL-76 is also a faster plane than the AN-12 and AN-22, both of

which are turboprop aircraft. Moreover, the IL-76 probably has improved handling systems for loading, unloading, and parachuting cargo.

At least ten Candid's have been built thus far, and the current production rate is about one aircraft per month. In addition to its role as a military transport, the Candid may also be modified for use as a tanker to support longer range operations of other aircraft and can be used as a cargo carrier for the Soviet civilian airline, Aeroflot.

SOYUZ-SALYUT MISSION UNDER WAY

Another Soviet manned space mission is in progress. Soyuz 17, with two cosmonauts aboard, was launched from Tyuratam on January 10 and a day later docked with the Salyut 4 space station, which has been in orbit since December 25. No problems have been noted in the mission so far. Neither of the two cosmonauts has had prior experience in space. The civilian flight engineer, however, is a spacecraft designer who participated in the development of lunar craft capable of soft landing on the moon.

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CYPRUS: POLITICAL TALKS BEGIN

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President Makarios this week announced the formation of a new cabinet composed of men who have proved their loyalty to him in the past. The Greek Cypriot side will now be ready to devote its attention to the intercommunal talks, which this week turned to substantive political issues for the first time since the intercommunal fighting last summer.

The New Cabinet

Most of the new ministers held cabinet portfolios or high posts in the bureaucracy at the time of the coup last July. None owe their political allegiance to former acting president Clerides, who is now a potential rival to Makarios for the presidency. Makarios had earlier considered forming a government of national unity, composed of representatives of all political groups, including the far left and far right. He abandoned the idea when he was unable to get the agreement of the various political groups on appointments, particularly to the important ministries of foreign affairs and interior.

Having excluded all but his supporters from the cabinet, Makarios will probably seek regular consultations with political party leaders in order to maintain a semblance of Greek Cypriot unity.

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The Intercommunal Talks

After agreeing to a faster pace for the talks of two meetings per week, Clerides and Denktash began preliminary discussions of political issues on January 14 and will meet again today to discuss reopening Nicosia airport and the island's seaports, particularly Famagusta. The Greek Cypriots, who make up 80 percent of the island's population, are likely to call for proportional representation of the two communities in the operation of the airport under UN auspices, and joint control of Famagusta port.

The Turkish Cypriots, for their part, are likely to insist on equal representation in the operation of the airport. They may offer the use of Famagusta port to Greek Cypriots, but they are not likely to consent to Greek Cypriot participation in its operation. The Turkish Cypriot side will be under pressure to make concessions, however, because of the impending cut-off of US military aid to Turkey on February 5. Once the airport and seaport issues are settled, the negotiators will begin to talk about the powers of the central government in the proposed federation. Clerides and Denktash also agreed at their last meeting to set up a sub-committee to discuss remaining humanitarian issues.

The British, in the meantime, are planning to begin on January 18 the evacuation to Turkey of the 8-9,000 Turkish Cypriots living in the sovereign British base area in the south of Cyprus. The refugees are then expected to be settled in the Turkish Cypriot sector of Cyprus. Turkish and Turkish Cypriot leaders had earlier voiced concern about the plight of Turkish Cypriots on the base. They will now be under pressure to reciprocate by responding to the humanitarian concerns of Greek Cypriots.

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GREECE-TURKEY: AEGEAN DISPUTE REVIVED

Tensions between Greece and Turkey over mineral rights in the Aegean arose again this week when the Turkish government responded to a tough statement by the Greek defense minister with tough statements of its own. Ankara backed up its statements with a low-level military alert and a public announcement that Turkey will soon initiate oil exploration in the Aegean.

The dispute, which had been relatively quiet while Turkey and Greece concentrated on the Cyprus problem, was rekindled when Greek Defense Minister Averoff said in a speech on January 9 that Greece would aggressively defend its position in the Aegean, which he referred to as a Greek sea. The following day, the Greeks announced that they had authorized a foreign contractor to conduct oil exploration in the Aegean. There was no indication, however, that the seismic exploration vessel would venture into the disputed zone.



Irmak's reference was apparently to a Norwegian seismic exploration ship, the Longva, which for some weeks took soundings off the southern coast of Turkey in the Mediterranean. According to Irmak, the Longva, which is under contract to the Turkish government, will soon begin to move north to the Bay of Saros and the Aegean off the western coast of Turkey.

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The Turks' initial reaction came on January 11 when the defense minister warned the Greeks that Turkey was fully capable of retaliating against any aggressive acts in the Aegean.

By midweek, there were

TENSIONS OVER MINERAL RIGHTS RENEWED AS BOTH COUNTRIES AN- NOUNCE OIL EXPLORATION PLANS.

indications that the Turks had begun to relax their stance.

The Irmak government's initial restrained response drew political fire from former prime minister Ecevit, who charged that the Greeks were taking advantage of Turkish timidity. Apparently stung by these charges, Prime Minister Irmak stated that his government was prepared to take all necessary measures to protect Turkish rights in the Aegean. He also announced that "before long" Turkey, too, would begin oil exploration in the Aegean.

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No timing was given for the Longva's entry into the Aegean

The Greek defense minister's statement may have coincided with the already scheduled movement of the Longva, prompting the Turks to take defensive measures.

In any event, the Turks may now feel that their prestige is on the line and their legal claim in jeopardy. The reported itinerary of the Longva will place it near the disputed zone, where it could be used to reinforce the Turkish claim and salve nationalistic pride. The Turks have urged the Greeks to negotiate a demarcation line drawn along the median between the Greek and Turkish mainlands, or to agree to joint prospecting. They may believe that forcing the issue now will bring the Greeks to the bargaining table.

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DENMARK: ELECTION OUTCOME

The ruling Moderate Liberals were the big gainers in the Danish parliamentary election on January 9, nearly doubling their parliamentary strength. Nevertheless, Prime Minister Hartling will probably have to make some compromises in order to get majority backing for his economic "crisis plan."

A general shift to the left and a stronger than expected showing by the conservative Progressive Party reduced the overall strength of the non-socialist parties of the political center that have been Hartling's traditional source of support. With the exception of the Moderate Liberals and the tiny Christian Peoples Party, all of the non-socialist parties lost ground. The center bloc was reduced to 78 seats in the 179-seat parliament. The Moderate Liberals, who have governed the country for the past 13 months with only 22 seats, increased their representation to 42.

The parties of the left and right held their own. The Social Democrats, Hartling's traditional opponents and the largest party in parliament, picked up 7 new seats for a total of 53. The anti-tax Progressive Party lost only two seats despite the indictment of party leader Mogens Glistrup for income tax evasion and Hartling's success at reducing income taxes during his 13 months in office.

Hartling has officially informed the Queen that his government will continue, despite a call for his resignation by Social Democrat leader Jorgensen on the grounds that the country deserves a majority government. Hartling intends to spend the days before January 23, when parliament reconvenes, negotiating with all nine parties in parliament for a coalition combination or, lacking that, unofficial support for his plan.

Hartling called the election last month when it became clear that his austerity program would not receive majority backing. The program calls for a wage and price freeze, suspension of the link between wages and the cost-of-living index, and strict control of agricultural prices. The Prime Minister maintains that his is the only plan that will bite into the country's annual 15-percent inflation rate, 5-percent unemployment rate, and huge trade deficit.

If Hartling continues as the head of a minority Liberal government, he will have to modify his economic program in order to appease the Social Democrats, who oppose Hartling's proposal for a wage and price freeze. The poor election performance of the non-socialist parties and the traditional conflict between socialists and non-socialists indicate a precarious life for a new government headed by Hartling.

Hartling



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Social Democratic Chairman Jorgensen



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SPAIN: MILITARY, LABOR CAUSE CONCERN

In his traditional year-end speech, Chief of State Franco described 1974 as a "troubled year for all of us." Speculation over possible political activity in the armed forces, an increase in Basque terrorism, and the worst labor agitation in over a decade suggest that 1975 will be equally troublesome.

Conjecture that political activity among the military may be serious arose as a result of the warnings against the impropriety of such activity issued by the ministers of the three services at their annual New Year's receptions.

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volving some 150,000 workers, this was the first relatively successful general strike in the Basque provinces since the Civil War. Large police reinforcements from Madrid kept violence at a minimum.

Adding to tension from labor turmoil in the Basque area were several terrorist acts believed to have been perpetrated by Basque Fatherland and Liberty militants to dramatize their anti-regime fight. Last month, two policemen were machine-gunned to death from a passing car and two Civil Guards were wounded by machine-gun fire. The police responded by arresting a number of suspected terrorists.

POLITICAL ACTIVITY IN THE ARMED FORCES, BASQUE TERRORISTS, AND ILLEGAL STRIKES SUGGEST A TROUBLESOME 1975.

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The Basque area strikes have been accompanied by work stoppages in various important cities, including Madrid and Barcelona. The spotlight is now on the Barcelona area, particularly the *Seat* automobile plant. Strikes there, which have provoked retaliatory company lockouts, involve a host of labor grievances, including wage negotiations, management proposals for a reduced work week, and worker demands for recognition of illegal worker groups. Company efforts to fire 400 activist workers and other anti-labor measures are likely to intensify agitation.

A spate of strikes—which are illegal—took place last month and is continuing. The strikes began largely over wages but took on political overtones as protests over police violence and treatment of political prisoners were added. The highlight was a one-day general strike held in the Basque area on December 11 to commemorate the fourth anniversary of the famous trial in Burgos of 16 Basque terrorists. The strike was organized by a coalition of extremist political organizations—including the terrorist group, Basque Fatherland and Liberty—and various moderate clandestine labor organizations. In-

Other than some strong police action against strikers, the government has remained inactive in face of the labor turmoil. The labor minister continues to promise to unveil the draft of a revised labor law, possibly containing a limited right-to-strike provision, but this has been held up by opposition from conservatives in the government. Continued labor agitation is likely at least through early February when most contract negotiations should be completed.

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ANGOLA: AGREEMENT ANNOUNCED

Portuguese officials and leaders of the three rival Angolan liberation groups signed an accord on January 15 giving the territory a transitional government and providing for full independence on November 11. The transitional government is scheduled to be installed on January 31.

The accord climaxed five days of hard bargaining among the parties at a resort hotel in southern Portugal. During the transitional phase, the territory will be governed by a Portuguese high commissioner and a presidential council composed of the deputies to the leaders of the three insurgent groups. A cabinet of 12 ministers will also be established, with portfolios divided equally among the Portuguese and the three groups.

The leaders themselves—Holden Roberto of the National Front for the Liberation of Angola, Agostinho Neto of the Popular Movement for the Liberation of Angola, and Jonas Savimbi of the National Union for the Total Independence of Angola—will not participate directly in the transitional government. Presumably, they will concentrate on building up the political structures of their organizations.

The accord calls for a defense commission composed of the high commissioner, the presidential council, and a joint general staff. Forces of the three insurgent groups are to be integrated into an Angolan national army, and Portugal is to begin a phased withdrawal of its troops before April.

The transitional government is charged with organizing elections for a constituent assembly sometime before independence. A central commission will be established to draft an electoral law. Only the three liberation groups can submit candidates for the constituent assembly. The accord provides for a presidential election, but is vague on when it is to be held.

Under the accord, the three liberation groups guarantee to respect the rights and property of Angola's 500,000 whites, but no provision is made for the participation of the whites in political activities. In the past, the three groups have argued that Angola's whites must cease thinking of themselves as a separate power bloc and join one of the liberation organizations.

Angola is the last of Portugal's African territories to work out an agreement for independence since Portugal embarked on its decolonization campaign following the coup last April. The process was delayed largely by the rivalries among the insurgent leaders. Those rivalries have certainly not been put to rest by the present accord, and they could upset the delicately balanced machinery for sharing power.

Angola's whites, who were not invited to participate in negotiating the accord, will see their political options as very limited and might begin looking for ways to disrupt the transition. At present, however, the whites appear to be poorly organized and do not seem likely to pose a serious threat.

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Angolan Delegates



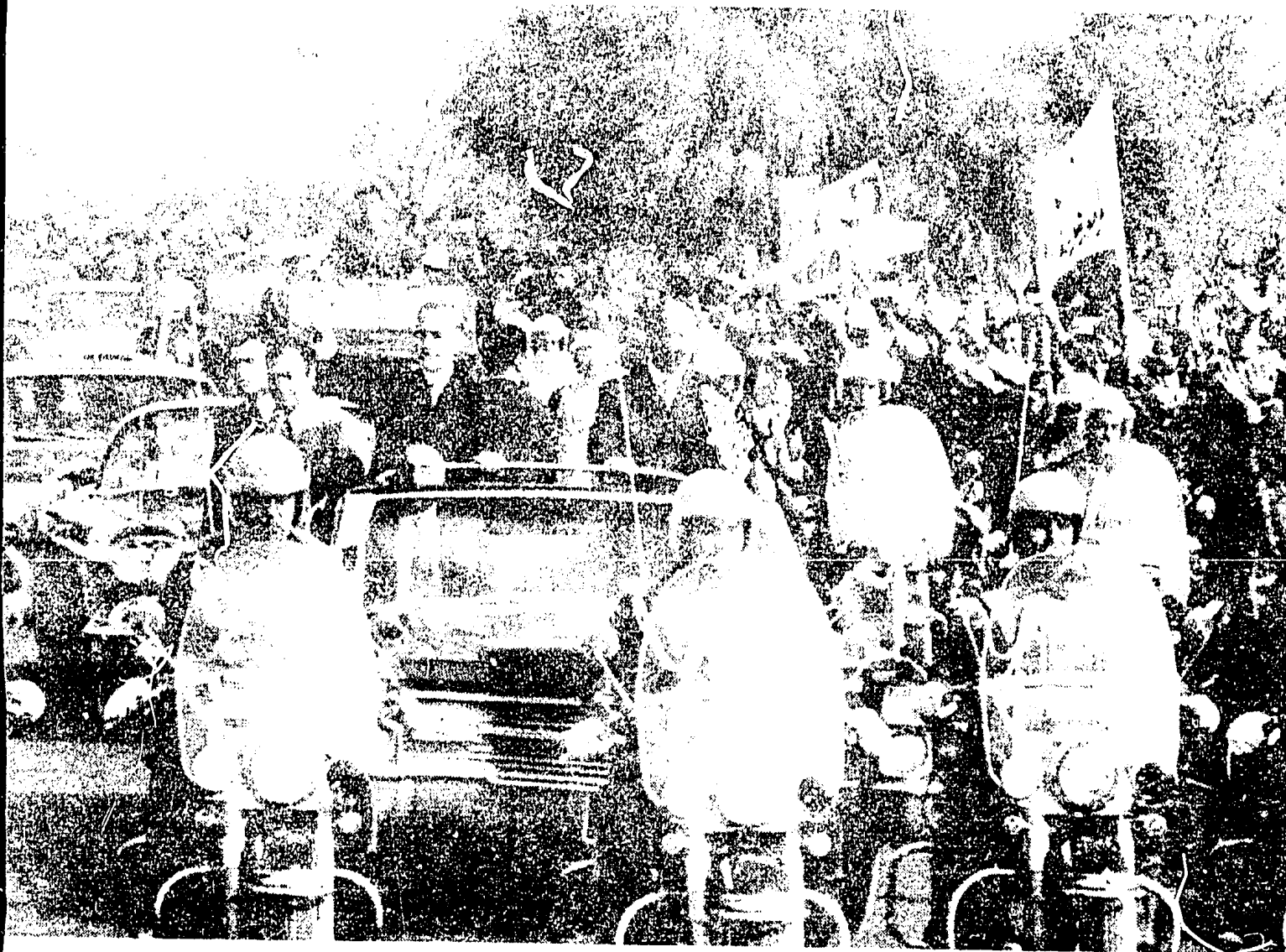
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IRAN - ARAB STATES: GETTING CLOSER

Visits to Jordan and Egypt last week by Iran's Shah Mohammed Reza Pahlavi served clear notice of his desire to increase the influence of his non-Arab country in the Middle East. The Iranian ruler sought to demonstrate his support for the moderate leadership of King Husayn and President Sadat, to further the split between Egypt and the USSR, and to isolate the radical Arab regime in Iraq.

In his talks with Husayn and Sadat, the Shah evidently lobbied for greater cooperation with moderate Arab leaders. He probably also solicited support for the larger role Tehran has assumed in the Persian Gulf area and asked for understanding of his position in the dispute between Iran and Iraq. The Shah views Sadat as a strong leader who shares Iran's desire to restrict the influence of radical Arab regimes and the Soviet Union in the Middle East.

The Shah and Sadat in Cairo motorcade



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The communiques ending the visits broke no new political ground. On Arab-Israeli questions, the Shah predictably came down clearly on the side of his hosts. The communiques called for implementation of UN resolutions to achieve rapid Israeli withdrawal from occupied territories, rejected any unilateral change in the status of Jerusalem, and pledged support for the "legitimate rights of the people of Palestine."

Both Husayn and Sadat provided a warm welcome, praising the Iranian monarch's leadership and promising to promote greater Arab-Iranian cooperation. This friendly treatment is sure to be resented by the radical regimes in Baghdad and Aden, which have urged their fellow Arabs to condemn Iran's military support for the rebellious Iraqi Kurds and for the Omani Sultan's efforts to suppress leftist dissidents. President Sadat also lent his support to Iran's contention that world inflation cannot be blamed on higher oil prices. The Cairo communique stressed that a solution to international economic problems should be based on cooperation "without recourse to threats of violence."

During the Shah's visit to Amman, some previously negotiated arrangements for Iranian aid to Jordan were publicized. Under the agreement, Iran is providing 22 F-5 jet fighters as well as limited assistance for housing and medical facilities. In Cairo, statements on economic ties reiterated details of agreements signed last year for credits totaling about \$850 million.

After leaving Cairo, the Shah told a Vienna newspaper that Tehran would not participate in any new oil embargo instituted by Arab producers. The Shah's comment may have been intended to reassure Tel Aviv, which depends on imports of Iranian oil, that his newly strengthened ties with the Arabs were not made at the expense of Israel.

some Tel Aviv newspapers took the line that the Shah's relations with Cairo would be a force for moderation and a counterweight to Soviet influence.

EGYPT-USSR: UNEVEN COURSE

President Sadat last week complained publicly again about Moscow's arms policy toward Egypt, but he did not pursue the subject in two subsequent opportunities. The Egyptian leader's criticism seemed intended in part to justify to other Arabs his support of the US bilateral approach toward Middle East peace negotiations rather than the multilateral approach favored by the Soviets.

In an interview with a Beirut newspaper on January 8, Sadat acknowledged that, during Foreign Minister Fahmi's visit to Moscow last month, Soviet leaders had agreed to provide "a part" of Egypt's arms demands. But, he charged, this will not meet Cairo's needs either for replacement of war losses or for newly developed equipment. The new criticism of the Soviets ended a long period of restraint by Sadat on the subject.

Addressing his remarks to "every Arab," Sadat noted that Syria has received full compensation for war losses from Moscow and that Israel has received both replacements and new equipment from the US, whereas Egypt has obtained only "a few arms." His message seemed to be that Egypt is justified in taking what it can get from US diplomatic efforts because Syria gets what it wants from the Soviets.

Sadat did not repeat the criticism, however, in an interview with a second Beirut newspaper later in the week or in a Cairo newspaper interview this week. He reiterated his standard position that Moscow has always supported only peaceful means of resolving the Arab-Israeli conflict—itsself an implicit criticism intended to show other Arabs that their "best" ally opposed the war in 1973—but his tone was basically friendly. He called party chief Brezhnev a "real friend" of Egypt and of the Arab cause, and he expressed gratitude for the help Moscow has given. Sadat undoubtedly knows that public criticism will only endanger the arms supplies, however limited, that the Soviets have promised, and he may have thought better of his earlier open airing of Egyptian-Soviet differences.

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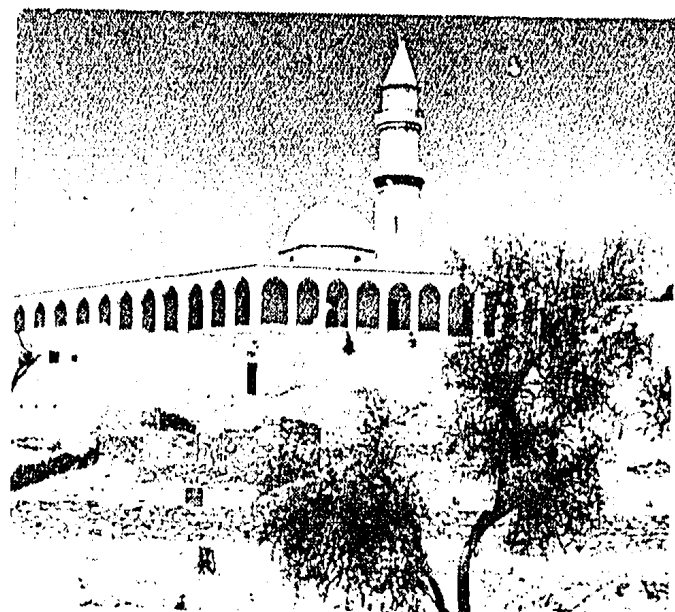
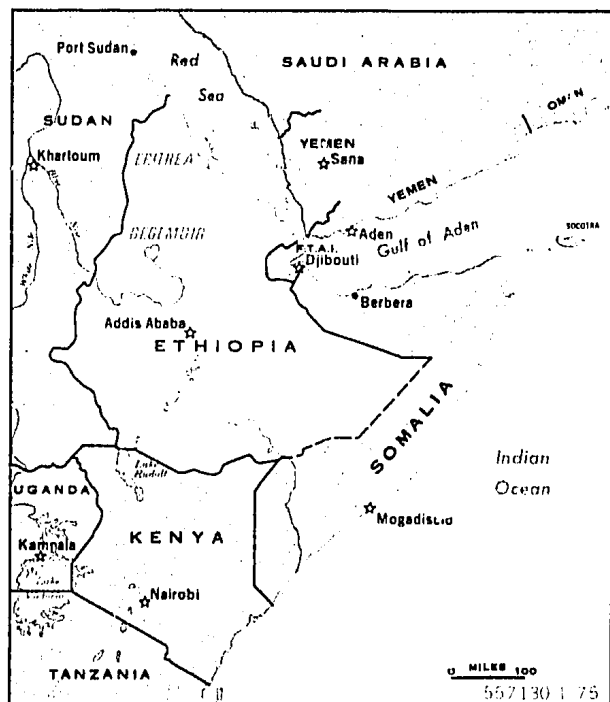
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ETHIOPIA: IMPERILED TRUCE

A fragile truce in Eritrea is threatened by renewed terrorist incidents and hard-line statements both from government spokesmen and some exiled leaders of the Eritrean insurgency.

The ruling military council and insurgent leaders in Eritrea Province apparently agreed in late December to observe a de facto truce while exploring the possibility of a peaceful settlement of the insurgency. Provincial notables in Eritrea—prominent tribal and religious figures—have been trying to arrange direct negotiations between the rebels and the council.

According to press reports, government sources are now saying that the three-cornered negotiations have broken down because the government refused to issue a statement accepting Eritrean independence and agreeing to withdraw troops from the province. A government broadcast complained that the Eritrean separatists initiated a new wave of violence early this week, including bombings at the Asmara post office, twelve kidnappings, and one assassination. It is not clear whether these incidents were approved by the insurgent leaders in Eritrea.



Mosque in Eritrea Province

Meanwhile, rebel exiles continue to insist on independence as a precondition to any negotiations with Addis Ababa. Within Eritrea, however, negotiations between the notables and insurgent leaders may still be continuing.

An Ethiopian delegation is currently touring Arab capitals in an attempt to enlist support in fostering negotiations with the predominantly Muslim insurgents, who have received arms and financial assistance from the Arabs. The delegation completed talks this week in Cairo—where some of the intransigent rebel leaders are based—and is scheduled to continue on to Beirut, Baghdad, and Damascus.

With the situation already touch-and-go in Eritrea, the council appears to be facing a new threat to its authority in Begemdir Province, where clashes occurred last week between police and dissidents. The US embassy in Addis Ababa has received reports that the unrest is the beginning of a revolt against the military council, possibly organized by the former provincial governor, who went into hiding last month along with other provincial officials. The Begemdir dissidents oppose the council's adoption of socialism and its plans for radical land reform.

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LATIN AMERICA: RELATIONS WITH US

In an effort to accommodate their sometimes conflicting political needs in regard to the US, Latin American governments are trying to select carefully the issues on which regional solidarity counts more than individual national interest. Most governments, for example, have responded favorably to Venezuela's call for a special OAS meeting to discuss portions of the US Trade Reform Act, which many Latins have characterized as discriminatory. At the same time, the call by Venezuela and Ecuador for a boycott of the hemisphere's foreign ministers' meeting set for March in Buenos Aires has been greeted less sympathetically.

Despite wide support in principle for the effort to place the US in an OAS "court" to answer charges of economic aggression, the notion may remain in the rhetorical stage. Not all Latin governments are clear on how the new US trade legislation will affect them, and they are currently examining US briefings that detail the positive aspects of the act. The Venezuelans seem pleased with reports that Congress will be asked to alter language in the bill that the Latins find offensive, and Venezuela may come around to agreeing to discuss the trade issue at the regular OAS General Assembly in April rather than holding out for a special session in the immediate future. President Perez still may condition Venezuela's attendance at Buenos Aires on action rather than statements of intention.

The brouhaha over the trade legislation is symptomatic of growing Latin concern that the US is unwilling or unable to follow through on the promises inherent in its offer of a new dialogue last year. Their skepticism about the state of Latin American - US relations has added to their desire to stick together on as many issues as possible, even though the most pro-US governments are sometimes uncomfortable with the accompanying strain on their bilateral relations with Washington.

With inter-American relations so in flux, the outcome of the various proposals for meetings

and for boycotts of meetings remains unclear. While most governments seem in agreement that Buenos Aires will afford a good chance to deal directly with the US on contentious issues, this next foreign ministers' meeting is not yet definitely back on track.

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CUBA: DETENTE, HAVANA STYLE

Fidel Castro's statement last week that the US constitutes less of a threat to Cuba now than in the past does not signal a change in the policy toward this country that Havana has followed during the last year or so. Although Cuba is willing to work toward a reconciliation that would give it access to US trade and technology, it is still committed to promoting a confrontation between the US and the countries of Latin America.

In his press conference in Havana last week, Castro took the position that the danger of "US aggression" against Cuba had diminished, stating: "We cannot say that the danger no longer exists, but we can say that at present there is less danger than there was ten years ago." In response to a question, he reiterated an earlier offer to sell sugar to the US, but he tried to appear noncommittal on this point. He indicated that he does not think such a sale is possible in the immediate future and again said that Cuba can afford to wait ten more years because there is a market elsewhere. He thereby implied that he considers a resumption of trade as inevitable. It is clear that Castro would welcome a change in the status quo between the two countries and that he sees an improvement in relations as being of substantial benefit to Cuba.

It is also clear, however, that Castro is not going to stop trying to drive a wedge between the US and Latin America just to encourage a

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reconciliation with the US. In his statements he appeared intent on getting across the message that Cuba is no longer involved in promoting violent revolution in Latin America, and that Cuba and Latin America have a common enemy in the US that can best be countered through a unified effort. He described the current movement toward Latin American integration as "a positive change" and pledged Cuba's support to "every continental anti-imperialist policy and the search for new means of Latin American integration."

There is apparently some concern in Havana that Castro's remarks may be misinterpreted by Latin revolutionaries as a sign that Cuba is abandoning them. Castro had said: "We cannot extend our private revolutionary objectives to Latin America because I think a revolution belongs to the people of each nation and no one can conduct it for them." In reporting Mexican press reaction to his statements, for example, the official Cuban press agency tried to clarify the Cuban position by carefully selecting what it considered to be accurate reflections of Cuban policy, namely that reconciliation with the US is a bilateral matter and will be pursued separately from Cuba's other hemispheric initiatives.

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CHILE: EASING UP

The military government is trying to improve its international image by demonstrating "generosity and good will" on human rights issues. On January 11, the government released and deported to Romania former foreign and defense minister Clodomiro Almeyda, former justice and education minister Jorge Tapia, and three lesser lights of the Allende era. They had been in custody since the military take-over in September 1973.

Other recent moves related to human rights include the drastic reduction of some 30 sentences imposed by a provincial military court in December 1973. Press accounts suggest that military reviewing officers will continue to rectify

errors or excesses that may have been committed by military tribunals in the hectic weeks after the coup. On January 10, Gaston Pascal, the father of Movement of the Revolutionary Left leader Andres Pascal Allende, was released after a month of imprisonment. Andres' mother, Laura, sister of the late president Allende, remains behind bars, but her name is on a list of 200 detainees that the government has offered to fly to exile in Mexico. The government also appears to be seriously interested in getting on with the detainee release program it launched last September. Willing recipient countries are being sought for the initial group of 100, and another list of 100 has been prepared.

In recent months, Chilean leaders appear to have gained a fuller appreciation of just how low their international stock had sunk. Unfavorable action by the US Congress on military aid and sales of equipment undoubtedly helped drive the point home, and pressure from within for improvement in the government's human rights performance has been building. 25X1

In one area concerning human rights, however, the government is moving in a different direction. International agencies or commissions no longer will have almost automatic permission to study and report on the situation. Henceforth, any organization desiring to investigate conditions in Chile will have to show that it has received permission to undertake similar missions in the Soviet Union and Cuba.

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Terrorist activity has fallen off in recent weeks, in large part because of a successful government crackdown. Left-wing revolutionaries are on the defensive and reportedly are considering alternative tactics. Despite this slackening in violence, the continuing warfare between the left and right remains a serious problem for the Peron government.

Widespread arrests, effective joint operations by military and police forces, and an apparent change in the psychological climate are causing the terrorists to retrench and take stock of their situation.

there is no indication that the terrorists intend to abandon completely the campaign of kidnappings and armed attacks that has become their trademark. They will probably continue to use these tactics to raise funds and to demonstrate their active commitment to armed struggle.

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Security precautions



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GUATEMALA: AVENGING AN EXECUTION

The outlawed Guatemalan Labor Party, the country's communist party, may resume acts of terrorism to avenge the execution of its secretary general, Hiberio Alvarado, by a government "death squad" nearly a month ago.

After a similar incident in September 1972, in which six members of the party's Central Committee were captured and killed, allegedly by a government death squad, the party had opted to abstain from terrorist activity. Now, however, Joaquin Noval, the head of the Revolutionary Armed Forces, the party's terrorist group, seems likely to take over as leader of the party. If he does, the chances are that this time the party and its terrorist action arm will retaliate with violence of its own.

25X1 Little if any effort was made to conceal the government's involvement in Alvarado's death. He was captured by army and police forces during a shootout on December 20 as he and other party members were trying to collect a kidnap ransom. The following day, his body, showing signs of torture, was found along a highway near Guatemala City.

The communist party, 25 years old last year, is now only a shadow of its old self. Its hard-core

membership has declined from about 800 to about 500, and it probably has no more than half that many nonaffiliated sympathizers. Over the years, the party has had difficulty maintaining a balance between political action and terror. Decisions to cease or reduce terrorism have caused morale problems among the younger members hungry for armed action. This has led to splits in the party's action arm as more radical members, resisting party discipline, have sought to continue a more activist posture. Since the election of President Laugerud last March, the radicals seem to have been winning their argument. The party's action arm has carried out several robberies and kidnappings to acquire money.

The execution of Alvarado, however, is a fresh reminder that the Laugerud government intends to be as vigorous and brutal as its predecessor in countering the terrorism of the communists and other extreme leftists. Stern, revengeful anti-communism is basic to Laugerud's military and religious background, and nothing is likely to change his outlook.

Government forces are strong enough to keep the lid on the security situation. Isolated successes by terrorists—followed by government reprisals—could, however, create a period of political instability.

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